

**PARIS – HENRY COUNTY  
PUBLIC UTILITY DISTRICT**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED  
MAY 31, 2013 AND 2012**

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
For the Fiscal Years Ended May 31, 2013 and 2012

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## INTRODUCTORY SECTION

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT  
DIRECTORY  
May 31, 2013**

**BOARD MEMBERS**

Terry Pierce  
Dr. Tom Wood  
Steve Greer

**MANAGEMENT TEAM**

Tae Eaton, General Manager  
Shannon L. French, Office Manager  
Mark Bullion, Environmental Health and Safety Supervisor  
Brian Ray French, Construction Supervisor

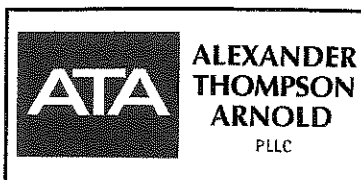
**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Alexander Thompson Arnold PLLC  
Jackson, Tennessee

## FINANCIAL SECTION

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## Independent Auditor's Report

Board of Commissioners  
Paris – Henry County Public Utility District  
Paris, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of the Paris-Henry County Public Utility District (the District), as of and for the year ended May 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of May 31, 2013 and 2012, and respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedule of funding progress-employee retirement system on pages 5 through 10 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The introductory section and other supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it or provide no assurance on it.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Alexander Thompson Arnold PLLC*

Certified Public Accountants  
Jackson, Tennessee  
August 16, 2013



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Paris – Henry County Public Utility District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended May 31, 2013. All amounts, unless otherwise indicated, are expressed in actual dollars.

### **FINANCIAL HIGHLIGHTS**

Management believes the District's financial condition is strong. The District is well within its debt covenants and the more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$15.21 million and exceeded liabilities in the amount of \$14.21 million (i.e. net position). Total assets increased by \$612 thousand due primarily to a significant increase in capital assets.
- Net position increased by \$549 thousand during the current year due to an increase in operating income for the year.
- Operating revenues were \$5.23 million, an increase from the year 2012 in the amount of \$483 thousand or 10.19%.
- Operating expenses were \$4.72 million, a decrease from the year 2012 in the amount of \$71 thousand or 1.49%.
- Operating income for the year was \$505 thousand as compared to a \$49 thousand operating loss in the prior year.
- Ratios of operating income to total operating revenue were 9.66, -1.04, and 2.41, for 2013, 2012, and 2011.

### **OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information is made up of four sections: 1) the introductory section, 2) the financial section, 3) other supplementary information section, and 4) the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, independent auditor's report, financial statements with accompanying notes, and required supplementary information. The other supplementary information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

### **REQUIRED FINANCIAL STATEMENTS**

A proprietary fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The *Statements of Net Position* presents the financial position of the District on a full accrual historical cost basis. The statement includes all of the District's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. It provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

## **FINANCIAL ANALYSIS**

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The District's total net position increased for the fiscal year ended May 31, 2013 and decreased in 2012, respectively. The analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the year.

**CONDENSED STATEMENTS OF NET POSITION (TABLE 1A)**

	<b>May 31, 2013</b>	<b>May 31, 2012</b>	<b>Increase (Decrease)</b>	
			<b>\$</b>	<b>%</b>
Current and other assets	\$ 7,402,037	\$ 7,270,240	\$ 131,797	1.81%
Capital assets	7,805,262	7,324,759	480,503	6.56%
<b>Total assets</b>	<b>15,207,299</b>	<b>14,594,999</b>	<b>612,300</b>	<b>4.20%</b>
Long-term liabilities	246,752	-	246,752	100.00%
Other liabilities	752,489	936,062	(183,573)	-19.61%
<b>Total liabilities</b>	<b>999,241</b>	<b>936,062</b>	<b>63,179</b>	<b>6.75%</b>
Net Investment in capital assets	7,558,510	7,324,759	233,751	3.19%
Unrestricted	6,649,548	6,334,178	315,370	4.98%
<b>Total net position</b>	<b>\$ 14,208,058</b>	<b>\$ 13,658,937</b>	<b>\$ 549,121</b>	<b>4.02%</b>

**CONDENSED STATEMENTS OF NET POSITION (TABLE 1B)**

	<b>May 31, 2012</b>	<b>May 31, 2011</b>	<b>Increase (Decrease)</b>	
			<b>\$</b>	<b>%</b>
Current and other assets	\$ 7,270,240	\$ 7,229,542	\$ 40,698	0.56%
Capital assets	7,324,759	7,414,407	(89,648)	-1.21%
<b>Total assets</b>	<b>14,594,999</b>	<b>14,643,949</b>	<b>(48,950)</b>	<b>-0.33%</b>
Total liabilities	936,062	975,858	(39,796)	-4.08%
Net Investment in capital assets	7,324,759	7,414,407	(89,648)	-1.21%
Unrestricted	6,334,178	6,253,684	80,494	1.29%
<b>Total net position</b>	<b>\$ 13,658,937</b>	<b>\$ 13,668,091</b>	<b>\$ (9,154)</b>	<b>-0.07%</b>

The increase in capital assets was due primarily to an increase in the transmission system of \$823 thousand. The overall increase in net position for 2013 was due to net income of \$549 thousand.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Position for the years.

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (TABLE 2A)**

	<u>May 31, 2013</u>	<u>May 31, 2012</u>	<u>Increase (Decrease)</u>	
			<u>\$</u>	<u>%</u>
Operating Revenues	\$ 5,228,114	\$ 4,744,839	\$ 483,275	10.19%
Non-operating revenues	44,094	40,338	3,756	9.31%
Total revenues	<u>5,272,208</u>	<u>4,785,177</u>	<u>487,031</u>	<u>10.18%</u>
Cost of sales and service	2,733,270	2,765,957	(32,687)	-1.18%
Transportation, distribution, shop and maintenance expense	576,279	651,764	(75,485)	-11.58%
General and administrative expense	987,731	970,539	17,192	1.77%
Depreciation expense	424,919	405,065	19,854	4.90%
Taxes and tax equivalents	888	1,006	(118)	-11.73%
Total expenses	<u>4,723,087</u>	<u>4,794,331</u>	<u>(71,244)</u>	<u>-1.49%</u>
<b>Change in net position</b>	<b>549,121</b>	<b>(9,154)</b>	<b>558,275</b>	<b>-6098.70%</b>
Beginning net position	13,658,937	13,668,091	(9,154)	-0.07%
Ending net position	<u>\$ 14,208,058</u>	<u>\$ 13,658,937</u>	<u>\$ 549,121</u>	<u>4.02%</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (TABLE 2B)**

	<u>May 31, 2012</u>	<u>May 31, 2011</u>	<u>Increase (Decrease)</u>	
			<u>\$</u>	<u>%</u>
Operating Revenues	\$ 4,744,839	\$ 5,756,686	\$ (1,011,847)	-17.58%
Non-operating revenues	40,338	62,624	(22,286)	-35.59%
Total revenues	<u>4,785,177</u>	<u>5,819,310</u>	<u>(1,034,133)</u>	<u>-17.77%</u>
Cost of sales and service	2,765,957	3,608,882	(842,925)	-23.36%
Transportation, distribution, shop and maintenance expense	651,764	748,335	(96,571)	-12.90%
General and administrative expense	970,539	876,287	94,252	10.76%
Depreciation expense	405,065	383,534	21,531	5.61%
Taxes and tax equivalents	1,006	938	68	7.25%
Total expenses	<u>4,794,331</u>	<u>5,617,976</u>	<u>(823,645)</u>	<u>-14.66%</u>
<b>Change in net position</b>	<b>(9,154)</b>	<b>201,334</b>	<b>(210,488)</b>	<b>-104.55%</b>
Beginning net position	13,668,091	13,466,757	201,334	1.50%
Ending net position	<u>\$ 13,658,937</u>	<u>\$ 13,668,091</u>	<u>\$ (9,154)</u>	<u>-0.07%</u>

Operating revenues showed a 10.19% increase from 2012 to 2013 and a 17.58% decrease for 2011 to 2012. These changes have been due to the fluctuations in the gas prices and the difference in the winters over the past several years. This has caused fluctuations in the billings, but there have also been an equivalent fluctuation in the cost of gas to offset the changes. Non-operating revenues have also decreased 29.59% over the 3 year period, due primarily to decreasing interest rates on bank accounts and certificates of deposit. General and administrative expenses have increased during the three year period due primarily to increased costs of operation. Net position showed an increase of 5.50% over the 3 year period due to the above mentioned facts.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2013, the District had \$7.81 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, land rights, buildings and improvements, distribution and transmission systems, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, buildings and improvements, equipment, and transmission and distribution systems.

The following tables summarize the District's capital assets, net of accumulated depreciation, and changes therein, for the years ended May 31, 2013 and 2012. These changes are presented in detail in Note 3D to the financial statements.

The major portion of the additions over the past three years, took place in the transmission and distribution systems. Many of the additions to the distribution plant result from the rehabilitation of deteriorating lines, so the impact on operating and maintenance costs should be favorable, but the impact on revenues will be slight. The District is also steadily expanding their service area which requires a significant investment in capital assets.

#### CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (TABLE 3A)

	May 31, 2013	May 31, 2012	Increase (Decrease)	
			\$	%
Land	\$ 96,043	\$ 96,043	\$ -	0.00%
Buildings and Improvements	285,088	322,956	(37,868)	-11.73%
Equipment	245,508	180,047	65,461	36.36%
Transmission and distribution systems	7,178,623	6,658,590	520,033	7.81%
Work in process	-	67,123	(67,123)	-100.00%
<b>Total capital assets</b>	<b>\$ 7,805,262</b>	<b>\$ 7,324,759</b>	<b>\$ 480,503</b>	<b>6.56%</b>

#### CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (TABLE 3B)

	May 31, 2012	May 31, 2011	Increase (Decrease)	
			\$	%
Land	\$ 96,043	\$ 96,043	\$ -	0.00%
Buildings and Improvements	322,956	383,797	(60,841)	-15.85%
Equipment	180,047	273,412	(93,365)	-34.15%
Transmission and distribution systems	6,658,590	6,661,155	(2,565)	-0.04%
Work in process	67,123	-	67,123	100.00%
<b>Total capital assets</b>	<b>\$ 7,324,759</b>	<b>\$ 7,414,407</b>	<b>\$ (89,648)</b>	<b>-1.21%</b>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Management of the District, in response to the historically mild winter of 2011/2012, monitors the rate schedule for the possibility of climate changes. The District will continue to invest in upgrading its transmission and distribution lines.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the General Manager of the Paris – Henry County Public Utility District, P.O. Box 309, Paris, TN 38242.

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**STATEMENTS OF NET POSITION**  
May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current assets:		
Cash on hand	\$ 2,655	\$ 1,454
Cash and cash equivalents on deposit	5,848,151	5,382,904
Certificates of deposit	1,055,906	1,046,528
Accounts receivable (net of allowance for uncollectibles)	157,763	125,880
Interest receivable	917	917
Gas inventory	172,166	530,693
Materials and supplies inventory	119,782	133,211
Prepayments and other current assets	44,697	48,653
Total current assets	<u>7,402,037</u>	<u>7,270,240</u>
Noncurrent assets:		
Capital assets, not being depreciated		
Land	96,043	96,043
Work in process	-	67,123
Total capital assets, not being depreciated	<u>96,043</u>	<u>163,166</u>
Capital assets, net of accumulated depreciation		
Buildings and improvements	285,088	322,956
Equipment	245,508	180,047
Transmission and distribution system	7,178,623	6,658,590
Total capital assets (net of accumulated depreciation)	<u>7,805,262</u>	<u>7,324,759</u>
<b>Total assets</b>	<u><b>15,207,299</b></u>	<u><b>14,594,999</b></u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	211,478	122,122
Budget customer credits	219,962	515,010
USDA loan - current	3,248	-
Consumers' deposits	317,801	298,930
Total current liabilities	<u>752,489</u>	<u>936,062</u>
Noncurrent liabilities:		
USDA loan	<u>246,752</u>	-
Total liabilities	<u>999,241</u>	<u>936,062</u>
<b>Net Position</b>		
Net investment in capital assets	7,558,510	7,324,759
Unrestricted	6,649,548	6,334,178
<b>Total net position</b>	<u><b>\$ 14,208,058</b></u>	<u><b>\$ 13,658,937</b></u>

*The notes to the financial statements are an integral part of this statement.*

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
For the Years Ended May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Operating revenues:</b>		
Charges for sales and services	\$ 5,112,075	\$ 4,528,547
Other revenues	116,039	216,292
Total operating revenues	<u>5,228,114</u>	<u>4,744,839</u>
<b>Operating expenses:</b>		
Cost of sales and services	2,733,270	2,765,957
Transportation, distribution, shop, and maintenance expenses	576,279	651,764
General and administrative expenses	987,731	970,539
Provision for depreciation	424,919	405,065
Taxes and tax equivalents	888	1,006
Total operating expenses	<u>4,723,087</u>	<u>4,794,331</u>
Operating income (loss)	<u>505,027</u>	<u>(49,492)</u>
<b>Nonoperating revenues (expenses):</b>		
Interest and dividend income	28,517	40,338
Gain on sale of assets	15,577	-
Total nonoperating revenues (expenses)	<u>44,094</u>	<u>40,338</u>
<b>Change in net position</b>	<b>549,121</b>	<b>(9,154)</b>
Net position - beginning	<u>13,658,937</u>	<u>13,668,091</u>
Net position - ending	<u>\$ 14,208,058</u>	<u>\$ 13,658,937</u>

*The notes to the financial statements are an integral part of this statement.*



**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**STATEMENTS OF CASH FLOWS**

For the Years Ended May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:</b>		
Cash received from consumers	\$ 4,901,183	\$ 4,993,925
Cash paid to suppliers of goods and services	(2,703,148)	(3,534,223)
Cash paid to employees for services	(1,128,864)	(1,175,323)
Customer deposits received	61,937	50,850
Customer deposits refunded	(43,066)	(40,375)
Taxes paid including payments in lieu of taxes	(888)	(1,006)
Net cash provided (used) by operating activities	<u>1,087,154</u>	<u>293,848</u>
<b>Cash flows from capital and related financing activities:</b>		
Construction and acquisition of plant	(905,422)	(315,417)
Proceeds from new debt	250,000	-
Sale of assets	15,577	-
Net cash provided (used) by capital and related financing activities	<u>(639,845)</u>	<u>(315,417)</u>
<b>Cash flows from investing activities:</b>		
Purchase of investment	(1,055,906)	(1,046,528)
Proceeds from sale of investments	1,046,528	1,045,999
Interest collected	28,517	40,338
Net cash provided (used) by investing activities	<u>19,139</u>	<u>39,809</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>466,448</b>	<b>18,240</b>
Cash and cash equivalents - beginning of year	<u>5,384,358</u>	<u>5,366,118</u>
<b>Cash and cash equivalents - end of year</b>	<b>\$ <u>5,850,806</u></b>	<b>\$ <u>5,384,358</u></b>
<b>Cash and cash equivalents:</b>		
Unrestricted cash on hand	\$ 2,655	\$ 1,454
Unrestricted cash and cash equivalents on deposit	<u>5,848,151</u>	<u>5,382,904</u>
<b>Total cash and cash equivalents</b>	<b>\$ <u>5,850,806</u></b>	<b>\$ <u>5,384,358</u></b>

*The notes to the financial statements are an integral part of this statement.*

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**STATEMENTS OF CASH FLOWS**

For the Years Ended May 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 505,027	\$ (49,492)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	424,919	405,065
(Increase) decrease in accounts receivable	(31,883)	146,155
(Increase) decrease in inventories	371,956	(163,756)
(Increase) decrease in prepayments and other assets	3,956	(4,328)
Increase (decrease) in accounts payable	89,356	(153,202)
Increase (decrease) in prepaid accounts	(295,048)	102,931
Increase (decrease) in customer deposits	<u>18,871</u>	<u>10,475</u>
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ 1,087,154</u></b>	<b><u>\$ 293,848</u></b>

*The notes to the financial statements are an integral part of this statement.*

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2013 and 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

These are proprietary fund financial statements and include only the financial activities of Paris – Henry County Public Utility District. The District was created under the authority of Title 7, Chapter 82, *Tennessee Code Annotated*, the Utility District Law of 1937 for the purpose of providing natural gas service to Paris, Tennessee, portions of Henry County, and Hazel Kentucky.

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as correct financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when the liability is incurred regardless of the timing of the related cash flows. The accounting policies of the District conform to generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB).

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for sales to customers for sales and service. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**C. Assets, Liabilities, and Net Assets**

***Deposits and Investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

***Accounts Receivable***

Trade receivables result from unpaid billings for gas service to customers. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on past history of uncollectible accounts and management's analysis of current accounts. The District also allows customers to participate in budget billing which often results in the customer's account having a credit balance, which is shown in the liability section of the financial statements.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2013 and 2012

***Inventories and Prepaid Items***

Gas inventory consists of purchased natural gas that is stored in the ANR pipeline system and is valued at the lower of average cost or market.

Materials and supplies inventory is valued at the lower of average cost or market, using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

***Capital Assets***

Capital assets, which include property, plant, equipment, and construction in progress, are defined by the District as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District is depreciated using the straight line method over the following useful lives:

Building and improvements	7 - 47 years
Equipment	5 - 10 years
Transmission and distribution plant	7 - 47 years

***Deferred Outflows/Inflows of Resources***

During the year ended May 31, 2013, the District adopted the provisions of GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently has no items that qualify for reporting in this category.

***Net Position Flow Assumption***

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2013 and 2012

***Net Position***

Equity is classified as net assets and displayed in the following components:

- Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation and related debt
- Unrestricted – All other net position amounts that do not meet the description of the above categories.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

The District adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings, and certain revenues for capital projects.

All unexpended budgeted amounts remaining at the end of the fiscal year in the operating budget lapse.

Management submits a proposed budget to the District's Board prior to the May Board meeting. A budget is then adopted at the May meeting for the next fiscal year. During the year, management is authorized to transfer budgeted amounts between line items.

**NOTE 3 - DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

***Custodial Credit Risk***

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance, by the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of May 31, 2013, it was noted that all bank deposits were fully collateralized or insured.

**B. Receivables**

Receivables as of the fiscal year ends were made up of the following:

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2013 and 2012

	May 31,	
	2013	2012
Billed services for utility customers	208,701	166,194
Other accounts receivable	10,984	-
Allowance for doubtful accounts	(61,922)	(40,314)
Total	<u>\$ 157,763</u>	<u>\$ 125,880</u>

**C. Net Position**

Net position represents the difference between assets and liabilities. The net position amounts are as follows:

	May 31,	
	2013	2012
Capital assets	7,805,262	7,324,759
Less: debt as disclosed in Note 3E	(250,000)	-
Net investment in capital assets	7,555,262	7,324,759
Unrestricted	6,652,796	6,334,178
Total net position	<u>\$ 14,208,058</u>	<u>\$ 13,658,937</u>

**D. Capital Assets**

Capital asset activity during the years were as follows:

Description	Balance at May 31, 2012	Additions	Disposals	Reclass	Balance at May 31, 2013
Capital assets, not being depreciated					
Land	\$ 96,043	\$ -	\$ -	\$ -	\$ 96,043
Work in process	67,123	-	-	(67,123)	-
Total capital assets not being depreciated	<u>163,166</u>	<u>-</u>	<u>-</u>	<u>(67,123)</u>	<u>96,043</u>
Capital assets, being depreciated					
Buildings and improvements	515,603	-	-	-	515,603
Equipment	1,174,230	149,387	58,705	-	1,264,912
Transmission and distribution system	12,137,052	756,035	-	67,123	12,960,210
Total capital assets being depreciated	<u>13,826,885</u>	<u>905,422</u>	<u>58,705</u>	<u>67,123</u>	<u>14,740,725</u>
Less accumulated depreciation for:					
Buildings and improvements	192,647	37,868	-	-	230,515
Equipment	994,183	83,926	58,705	-	1,019,404
Transmission and distribution system	5,478,462	303,125	-	-	5,781,587
Total accumulated depreciation	<u>6,665,292</u>	<u>424,919</u>	<u>58,705</u>	<u>-</u>	<u>7,031,506</u>
Total capital assets, being depreciated, net	<u>7,161,593</u>	<u>480,503</u>	<u>-</u>	<u>67,123</u>	<u>7,709,219</u>
Total capital assets, net	<u>\$ 7,324,759</u>	<u>\$ 480,503</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,805,262</u>

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2013 and 2012

Depreciation expense amounted to \$424,919 for the fiscal year ended May 31, 2013 and \$405,065 for the fiscal year ended May 31, 2012.

Description	Balance at May 31, 2011	Additions	Disposals	Balance at May 31, 2012
Capital assets, not being depreciated				
Land	\$ 96,043	\$ -	\$ -	\$ 96,043
Work in process	-	67,123	-	67,123
Total capital assets not being depreciated	<u>96,043</u>	<u>67,123</u>	<u>-</u>	<u>163,166</u>
Capital assets, being depreciated				
Buildings and improvements	515,603	-	-	515,603
Equipment	1,149,211	25,019	-	1,174,230
Transmission and distribution system	11,913,777	223,275	-	12,137,052
Total capital assets being depreciated	<u>13,578,591</u>	<u>248,294</u>	<u>-</u>	<u>13,826,885</u>
Less accumulated depreciation for:				
Buildings and improvements	131,806	60,841	-	192,647
Equipment	875,799	118,384	-	994,183
Transmission and distribution system	5,252,622	225,840	-	5,478,462
Total accumulated depreciation	<u>6,260,227</u>	<u>405,065</u>	<u>-</u>	<u>6,665,292</u>
Total capital assets, being depreciated, net	<u>7,318,364</u>	<u>(156,771)</u>	<u>-</u>	<u>7,161,593</u>
Total capital assets, net	<u>\$ 7,414,407</u>	<u>\$ (89,648)</u>	<u>\$ -</u>	<u>\$ 7,324,759</u>

**E. Long-term Debt**

At year-end, the District's long-term liabilities consisted of one loan. It is a Community Facilities Loan through USDA's Rural Development. This loan is payable annually at an interest rate of 3.5%, with the annual payment being \$11,998. The balance of the loan at May 31, 2013 is \$250,000.

The following is a summary of long-term debt transactions for the year ended May 31, 2013.

	Balance 5/31/2012	Issued	Retired	Balance 5/31/2013	Due Within One Year
USDA Loan	\$ -	\$ 250,000	\$ -	\$ 250,000	\$ 3,248

The scheduled annual requirements for long-term debt at May 31, 2013, including interest of \$205,382 are as follows:

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2013 and 2012

Year Ending			
<u>May 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,248	\$ 8,750	\$ 11,998
2015	3,362	8,636	11,998
2016	3,479	8,519	11,998
2017	3,601	8,397	11,998
2018	3,727	8,271	11,998
2019-2023	20,683	39,307	59,990
2024-2028	24,563	35,427	59,990
2029-2033	29,170	30,820	59,990
2034-2038	34,641	25,349	59,990
2039-2043	41,142	18,848	59,990
2044-2048	48,862	11,128	59,990
2049-2051	<u>33,522</u>	<u>2,380</u>	<u>35,902</u>
	<u>\$ 250,000</u>	<u>\$ 205,832</u>	<u>\$ 455,832</u>

**NOTE 4 - OTHER INFORMATION**

**A. Employee Retirement Systems and Pension Plans**

**Tennessee Consolidated Retirement System**

***Plan Description***

Employees of Paris-Henry County Utility District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service, and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Utility District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.



**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

May 31, 2013 and 2012

***Funding Policy***

The Utility District requires employees to contribute 5.0 percent of earnable compensation.

The Utility District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 17.00% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Paris-Henry County Utility District is established and may be amended by the TCRS Board of Trustees.

***Annual Pension Cost***

For the year ending June 30, 2012, the Paris-Henry County Utility District's annual pension cost of \$111,367 to TCRS was equal to the Utility District's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 0 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information			
Fiscal Year	Annual Pension	Percentage of	Net Pension
Ending	Cost (APC)	APC Contributed	Obligation
6/30/2012	\$ 111,367	100.00%	\$ -
6/30/2011	\$ 106,724	100.00%	\$ -
6/30/2010	\$ 96,375	100.00%	\$ -

**Funded Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the plan was 89.23% funded. The actuarial accrued liability for benefits was \$1.16 million, and the actuarial value of assets was \$1.03 million, resulting in an unfunded accrued liability (UAAL) of \$0.12 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.61 million, and ratio of the UAAL to the covered payroll was 20.44%percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2013 and 2012

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2011	\$1,032	\$1,156	\$125	89.23%	\$609	20.44%
July 01, 2009	\$0	\$0	\$0	0.00%	\$0	0.00%
July 01, 2007	\$0	\$0	\$0	0.00%	\$0	0.00%

**Principal Retirement Plan**

***Plan Description***

As of May 31, 2013, only one employee remains a member of the District's contributory, defined benefit plan, a single employer plan. All new employees are required to join TCRS.

Employees under the age of 21 were eligible for the plan after attainment of age 21 and a period of service of 6 months. Normal retirement age is age 65 for all employees. Benefit is 60% of the employee's average compensation times the accrued benefit adjustment and short service percentage. The normal form of annuity provides for the payment of the annual benefit on a monthly basis for ten years and life (optional forms may be elected prior to retirement).

Benefits are available at a properly elected early retirement date which is within the 10-year period prior to the normal retirement date. Benefits accrued and vested to the early retirement date would be reduced by 6 2/3% for each year up to five and 3 1/3% for each year between five and ten that early retirement date precedes normal retirement date.

There is no maximum age for late retirement benefits. Benefits would be the greater of accrued benefit on normal retirement date actuarially increased to late retirement date or accrued benefit on late retirement date.

If an active employee should die prior to his normal retirement date, the value of his vested interest would be applied to provide a life annuity for his or her spouse (or if not married, a single sum cash payment to the beneficiary) payable monthly, deferred to participant's earliest retirement date if later than the date of death. The amount paid to the surviving spouse would be equal to the amount that would have been paid had the participant terminated employment on the date of death and survived to his/her earliest retirement age, retired with a qualified joint and 50% survivor annuity in effect, then died the next day. The spouse may elect a single sum cash settlement in lieu of the survivor annuity. The amount of the single sum death benefit would be the present value of the vested accrued benefit, but not less than the required contribution amount.

If an employee should terminate, he or she would be entitled to benefits equal to the sum of the amount of retirement annuity which could be provided on normal retirement date by the participant's contribution amount and the vesting percentage times the excess of the accrued benefit as of the date of termination over the annuity. The vesting percentage would be 25% after five years of vesting service plus 5% per year for each year between five and ten plus 10% per year for each

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2013 and 2012

year after ten years, up to 100%. The amount would be payable monthly for ten years and life with income deferred until normal retirement date.

Funding Policy: District employees are required to contribute 5% of their monthly earnings on a monthly basis.

Annual Pension Cost and Net Pension Obligation: The District's annual pension cost and net pension obligation to the Plan for the current year were as follows:

Carry forward of Net Pension Obligation:	
Annual required contribution for 2012 plan year	\$ 37,733
Interest on net pension obligation	(1,108)
Adjustment to annual required contribution	<u>(4,383)</u>
Annual pension cost for 2012 plan year	41,008
Contributions made	<u>37,733</u>
Increase (Decrease) in net pension obligation	3,275
2012 beginning of year net pension obligation	<u>(26,063)</u>
2012 end of year net pension obligation	<u><u>\$ (22,788)</u></u>

Annual Pension Cost for 2013 Plan Year:	
Normal cost with interest	\$ 44,733
Amortization with interest	-
Annual required contribution	<u>44,733</u>
Interest on net pension obligation	(968)
Adjustment to annual required contribution	<u>(4,383)</u>
Annual pension cost	<u><u>\$ 48,148</u></u>

The annual required contribution for the current year was determined as part of the February 28, 2013 actuarial report using the Aggregate Cost Funding method.

**B. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended May 31, 2013 and 2012, the District purchased commercial insurance for all of the above risks. There have been no settled claims exceeding the commercial coverage in any of the past three years and there have been no significant reduction in the amount of coverage provided.

**REQUIRED SUPPLEMENTARY INFORMATION**

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**SCHEDULES OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM**  
May 31, 2013

**Tennessee Consolidated Retirement System - Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$1,032,000	\$1,156,000	\$124,000	89.23%	\$609,000	20.44%
July 1, 2009	\$0	\$0	\$0	0.00%	\$0	0.00%
July 1, 2007	\$0	\$0	\$0	0.00%	\$0	0.00%

**Principal Retirement System - Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
March 1, 2013	\$ 131,323	\$ 225,406	94,083	58.00%	\$ 37,055	254.00%
March 1, 2012	270,951	337,318	66,367	80.00%	36,153	184.00%
March 1, 2011	225,605	353,946	128,341	64.00%	77,039	167.00%
March 1, 2010	190,127	283,200	93,073	67.00%	69,862	133.00%
March 1, 2009	157,157	246,214	89,057	64.00%	69,904	127.00%
March 1, 2008	633,405	936,834	303,429	68.00%	503,871	60.00%
March 1, 2007	539,964	813,907	273,943	66.00%	473,937	58.00%

The above schedule is designed to show the extent to which a pension plan has been successful over time in setting aside assets sufficient to cover its actuarial accrued liability.

*See independent auditor's report.*

**OTHER SUPPLEMENTARY INFORMATION**

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**SCHEDULES OF OPERATING REVENUES AND EXPENSES**

For the Years Ended May 31, 2013 and 2012

	2013		2012	
	Actual	Percent	Actual	Percent
<b>Operating revenues</b>				
Charges for sales and services:				
Residential sales	\$ 2,432,982	46.54	\$ 1,923,778	40.54
Commercial sales	1,349,654	25.82	1,145,103	24.13
Industrial sales	1,329,439	25.43	1,459,666	30.76
Total charges for sales and services	<u>5,112,075</u>	<u>97.78</u>	<u>4,528,547</u>	<u>95.44</u>
Other revenues				
Penalties	45,617	0.87	32,236	0.68
Connection fees	17,175	0.33	14,975	0.32
Turn on charges	11,325	0.22	12,150	0.26
Installation charges	41,331	0.79	153,656	3.24
Other revenues	591	0.01	3,275	0.07
Total other revenues	<u>116,039</u>	<u>2.22</u>	<u>216,292</u>	<u>4.56</u>
Total operating revenues	<u>\$ 5,228,114</u>	<u>100.00</u>	<u>\$ 4,744,839</u>	<u>100.00</u>
<b>Operating expenses</b>				
Cost of sales and services:				
Purchased gas	<u>\$ 2,733,270</u>	<u>52.28</u>	<u>\$ 2,765,957</u>	<u>58.29</u>
Transportation, distribution, shop, and maintenance expenses				
Salaries	365,705	6.99	430,267	9.07
Payroll taxes	27,885	0.53	31,530	0.66
Workmen's compensation	11,049	0.21	14,266	0.30
Employee education and training	3,860	0.07	3,933	0.08
Advertising	52	-	69	-
Postage & freight	1,345	0.03	1,165	0.02
Utility services	15,633	0.30	15,830	0.33
Repairs and maintenance	112,737	2.16	80,388	1.69
Professional services	99	-	-	-
Operating supplies	18,512	0.35	54,978	1.16
Clothing and uniforms	3,771	0.07	4,659	0.10
Insurance	11,644	0.22	12,072	0.25
Tools	<u>3,987</u>	<u>0.08</u>	<u>2,607</u>	<u>0.05</u>
Total transportation, distribution, shop, and maintenance expenses	<u>\$ 576,279</u>	<u>11.01</u>	<u>\$ 651,764</u>	<u>13.71</u>

See independent auditor's report.

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**SCHEDULES OF OPERATING REVENUES AND EXPENSES**  
For the Years Ended May 31, 2013 and 2012

	For the Fiscal Years Ended May 31,			
	2013		2012	
	Actual	Percent	Actual	Percent
General and administrative expenses:				
Salaries	\$ 385,017	7.36	\$ 357,013	7.52
Payroll taxes	59,718	1.14	36,507	0.70
Health insurance	165,894	3.17	161,026	3.08
Retirement	124,645	2.38	158,980	3.04
Workmen's compensation	2,176	0.04	2,922	0.06
Employee education and training	1,679	0.03	2,391	0.05
Postage & freight	33,207	0.64	31,127	0.60
Advertising and public relations	24,112	0.46	22,972	0.44
Credit card fees	13,340	0.26	10,058	0.19
Printing and publications	9,989	0.19	9,038	0.17
Memberships	37,604	0.72	18,734	0.36
Utility services	19,330	0.37	20,089	0.38
Professional services	23,903	0.46	27,875	0.53
Repairs and maintenance	20,690	0.40	28,412	0.54
Travel - board of commissioners	5,653	0.11	2,859	0.05
Travel - members of management	11,370	0.22	10,074	0.19
Travel - other employees	2,798	0.05	2,952	0.06
Office supplies	11,461	0.22	10,196	0.20
Clothing and uniforms	1,988	0.04	3,008	0.06
Insurance	31,617	0.60	42,629	0.82
Land rental	1,254	0.02	1,233	0.02
Miscellaneous	286	0.01	10,444	0.22
Total general and administrative expenses	<u>987,731</u>	<u>18.89</u>	<u>970,539</u>	<u>19.28</u>
Depreciation and amortization	<u>424,919</u>	<u>8.13</u>	<u>405,065</u>	<u>8.54</u>
Taxes and tax equivalent	<u>888</u>	<u>0.02</u>	<u>1,006</u>	<u>0.02</u>
<b>Total operating expenses</b>	<b><u>\$ 4,723,087</u></b>	<b><u>90.33</u></b>	<b><u>\$ 4,794,331</u></b>	<b><u>99.84</u></b>

See independent auditor's report.



**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**SCHEDULE OF LONG-TERM DEBT**  
May 31, 2013

Year Ended May 31,	USDA Loan	
	Principal	Interest
2014	\$ 3,248	\$ 8,750
2015	3,362	8,636
2016	3,479	8,519
2017	3,601	8,397
2018	3,727	8,271
2019	3,857	8,141
2020	3,992	8,006
2021	4,132	7,866
2022	4,276	7,722
2023	4,426	7,572
2024	4,581	7,417
2025	4,741	7,257
2026	4,907	7,091
2027	5,078	6,920
2028	5,256	6,742
2029	5,440	6,558
2030	5,630	6,368
2031	5,827	6,171
2032	6,031	5,967
2033	6,242	5,756
2034	6,460	5,538
2035	6,686	5,312
2036	6,920	5,078
2037	7,162	4,836
2038	7,413	4,585
2039	7,672	4,326
2040	7,941	4,057
2041	8,219	3,779
2042	8,506	3,492
2043	8,804	3,194
2044	9,112	2,886
2045	9,431	2,567
2046	9,761	2,237
2047	10,102	1,896
2048	10,456	1,542
2049	10,822	1,176
2050	11,200	798
2051	11,500	406
	<u>\$ 250,000</u>	<u>\$ 205,832</u>

*See independent auditor's report.*

**PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT**  
**GAS RATES IN FORCE AND NUMBER OF CUSTOMERS**  
 May 31, 2013

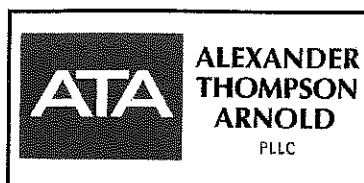
	<u>Tennessee</u>	<u>Kentucky</u>
<b>Residential rates:</b>		
Customer charge - per delivery point per month	4.50	4.50
Charge - per 1000 cf	7.40	7.45
<b>Commercial rates:</b>		
Customer charge - per delivery point per month	6.00	6.00
Charge - per 1000 cf	7.40	7.45
<b>Industrial rates:</b>		
Customer charge - per delivery point per month	6.00	6.00
Charge - per 1000 cf	6.90	6.90
 <b>Total customers</b>	 <b><u>2013</u></b>	 <b><u>2012</u></b>
Residential	5,421	5,358
Commercial	943	943
Industrial	15	15
	<b><u>6,379</u></b>	<b><u>6,316</u></b>

*See independent auditor's report.*

**INTERNAL CONTROL AND COMPLIANCE SECTION**

**Members of:**

American Institute of Certified Public Accountants  
AICPA Center for Public Company Audit Firms  
AICPA Governmental Audit Quality Center  
AICPA Employee Benefit Plan Audit Quality Center  
Tennessee Society of Certified Public Accountants  
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**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance  
With Government Auditing Standards**

Board of Commissioners  
Paris – Henry County Public Utility District  
Paris, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Paris-Henry County Public Utility District (the District) as of and for the year ended May 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 16, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants  
Jackson, Tennessee  
August 16, 2013

**PARIS-HENRY COUNTY PUBLIC UTILITY DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES**

May 31, 2013

**FINANCIAL STATEMENT FINDINGS**

No current year findings reported.

**DISPOSITION OF PRIOR YEAR FINDINGS**

No prior year findings reported.